

Conclusions

The primary goal of this report has been to examine whether regional policy alternatives to food aid can be more efficient in reducing food supply variation and whether they are cost effective in doing so. We find that the two policy options considered—grain stocking and grain import insurance—would reduce supply variability. The greatest reductions compared to food aid would be achieved with a stocking program, followed closely by import insurance. This report also finds that the grain stocking program would have been less expensive for donor countries than food aid during 1970-95. The cost of the insurance program would depend on startup costs.

Overall, these findings are consistent with earlier studies, such as those by Reutlinger and Bigman (1981), which showed that alternatives to food aid are more effective in stabilizing food supplies in a less costly and more efficient manner. This would seem to suggest that these results are not unique to the SADC countries and may be applicable to other regions as well. On the other hand, it is important to point out that the stocking results may be unique to this region since South Africa built up excess modern storage capacity in the apartheid years. Similar studies of other regions may find the storage program option is not more cost effective when allowing for new capital construction costs.¹⁵

We did not focus on administrative issues. We did not intend to recommend particular institutions for implementing such policy options, which might detract from the basic findings. However, such issues are potentially very important, especially if institutional and transportation infrastructures are weak in a region. For example, the status quo case of food aid illustrates that despite the best intentions of donors and recipient countries, food aid can have negative effects as has been well documented (for example, slow deliveries that arrive the following growing season, depressing producer prices and incentives in the

¹⁵ Moreover, storage costs in South Africa, which recently have been substantially below rates in the United States, are likely to rise as the country becomes more integrated with the world economy and as available excess storage space eventually dwindles. On the other hand, the import insurance program costs probably could be reduced with the use of commodity futures, which hasn't really been explored in this report.

recipient countries).¹⁶ The grain stock program and import insurance program also might lead to unforeseen consequences and involve hidden costs, such as high administrative costs and depreciation of local infrastructure. It should be noted that this also applies to food aid, which has not been taken into account. Again, it is important to emphasize that these results depend on the assumption of regional peace and cooperation. Other factors can dramatically change the distribution of costs and benefits. This is particularly true in countries where political considerations can easily override economic considerations.

It is important also to think about how to design such programs to minimize undesirable political interference. Previous experience has shown that grain stock programs at the country level tend to be vulnerable to political lobbying, which may lead to an imbalance of producer and consumer considerations. In developing countries that tend to have urban biases, consumer interests might allow prices to go down but exert political pressure whenever they start to go up. For grain import insurance, it is important to point out that it still has not been tried (Sarris, 1998). This policy would seem to be relatively undistorting. Potential problems with insurance might be slow processing of claims or a tendency by governments to underreport output. Reporting issues could be handled by a neutral statistical agency. Claims processing could be handled with effective administrative procedures, such as rapid processing based upon preliminary information followed by later detailed accounting and reconciliation procedures.

So far, countries continue to rely on food aid to reduce the impact of production shortfalls. One could argue that earlier failures to negotiate regional treaties to cooperate in holding stocks have led to the ongoing reliance on food aid as a policy option. Other factors contributing to ongoing reliance on food aid include political realities that need to be addressed. This analysis shows that food aid may not be the best use of economic resources; also, it is increasingly coming under pressure in international trade agreements. Thus, it could be beneficial to implement alternative food security policies such as those examined in this report.

¹⁶ For a review of different arguments about the motivation and effectiveness of food aid, see Ruttan (1993).